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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

VICHIP CORPORATION,
Plaintiff,

v.

TSU-CHANG LEE,
Defendant and
Counterclaimant.

Case No. C-04-02914 PJH

**VICHIP'S MEMORANDUM OF POINTS
AND AUTHORITIES IN SUPPORT OF ITS
MOTION FOR SUMMARY JUDGMENT**

TSU-CHANG LEE,
Counterclaimant,

v.

VICHIP CORPORATION, and VICHIP
CORPORATION, LTD.,
Counterclaim Defendants.

Date: April 26, 2006
Time: 9:00 a.m.
Courtroom: 3, 17th Floor
Judge: Phyllis J. Hamilton

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1 **I. INTRODUCTION**

2 Until his termination on June 4, 2004, Dr. Tsu-Chang Lee was ViCHIP's President, CEO
3 and sole director. He is also one of five ViCHIP employees who invented the technology
4 embedded in the Viper Chip, ViCHIP's innovative MPEG4 Codec integrated circuit. In 2003,
5 ViCHIP started the process of obtaining patent protection for its Viper Chip, and on June 23,
6 2003, ViCHIP filed a provisional patent application. All five inventors, including Dr. Lee,
7 irrevocably assigned to ViCHIP their rights to the inventions claimed in the provisional patent
8 application.

9 On June 3, 2004, less than a month before ViCHIP had to file a utility patent application
10 for its Viper Chip, Dr. Lee took ViCHIP's patent files and deleted proprietary information related
11 to the Viper Chip from ViCHIP's computer system. The next day, ViCHIP terminated Dr. Lee
12 from his positions as the company's President, CEO and sole director. In spite of his contractual
13 obligations to return to ViCHIP the patent files as well as the other proprietary information that
14 he removed (or deleted), Dr. Lee took the provisional patent application, which he had
15 irrevocably assigned to ViCHIP, and used it to file utility patent applications in his own name.

16 The most astonishing aspect of these facts is that they are undisputed. Dr. Lee has
17 admitted that he signed *three* different agreements in which he assigned to ViCHIP his rights to
18 the technology embedded in the Viper Chip. He has admitted to taking ViCHIP's patent files and
19 deleting files from ViCHIP's computer system on the eve of his termination. And he has
20 admitted to using ViCHIP's provisional patent application to file utility patents applications in his
21 own name. Finally, in what appears to be a *coup de grace* to his former employer, Dr. Lee has
22 admitted to taking and then ripping up the only executed copy of his Employee Invention
23 Assignment and Confidentiality Agreement and the patent assignment form, which was signed by
24 Dr. Lee and the other four inventors.

25 Dr. Lee's unabashed (and uncontested) taking and use of ViCHIP's intellectual property
26 gave rise to ViCHIP's claims against Dr. Lee. Given Dr. Lee's admitted conduct, ViCHIP can
27 establish with undisputed facts each element of the following causes of action: breach of contract,
28

breach of fiduciary duty, violation of the Computer Fraud and Abuse Act and conversion.¹

Because there are no genuine issues of material fact as to Dr. Lee's liability, ViCHIP is entitled to summary adjudication of these claims.

Dr. Lee's four counterclaims against ViCHIP are all that remain after Dr. Lee's unsuccessful attempt to bring two Taiwanese companies, Solid State Systems Corporation, Ltd. and Sesoda Corporation, Ltd., into this litigation. The counterclaims against ViCHIP arise from Dr. Lee's belief that he, not ViCHIP, owns the rights to the technology contained in the provisional patent application. Because Dr. Lee irrevocably assigned to ViCHIP the rights to the intellectual property that he now purports to own, Dr. Lee cannot prevail on his counterclaims as a matter of law. ViCHIP is also entitled to summary judgment of Dr. Lee's counterclaims.

II. RELEVANT PROCEDURAL HISTORY

ViCHIP filed a complaint against Dr. Lee on July 19, 2004. *See* ViCHIP Corporation's Complaint. Dr. Lee answered on September 23, 2004. *See* Answer to Complaint.

On November 10, 2004, the Court granted ViCHIP's *ex parte* application for a temporary restraining order and expedited discovery. Dr. Lee was ordered to refrain from using the confidential information that he removed from ViCHIP, including ViCHIP's Provisional Patent Application, and to return to ViCHIP the original copy of the Employee Invention Assignment and Confidentiality Agreement and all other portions of his personnel file that he removed. *See* November 10, 2004 Order.

On December 23, 2004, ViCHIP's Provisional Patent Application (which was a trade secret when the Court issued the temporary restraining order) was laid open by operation of patent law. On March 2, 2005, the Court denied ViCHIP's motion for a preliminary injunction because, by that time, ViCHIP's provisional patent application had been laid open under PTO rules. *See* March 2, 2005 Order.

On February 18, 2005, Dr. Lee filed a Motion for Leave to Amend. Dr. Lee and ViVoDa Communications, Inc. ("ViVoDa") sought to file counterclaims against ViCHIP and ViCHIP

¹ ViCHIP is not moving for summary adjudication of its trade secrets misappropriation claim.

Taiwan, and cross-claims against 3S, Sesoda and Hsi-Sheng Chen. In its April 18, 2005 Order, the Court denied Dr. Lee's and ViVoDa's motion to file cross-claims against 3S and Sesoda², but allowed Dr. Lee (but not ViVoDa) to file counterclaims against ViCHIP and ViCHIP Taiwan. The Court also permitted Dr. Lee to amend his answer. *See* April 18, 2005 Order. The Court also denied Dr. Lee's motion to bring cross-claims against Hsi-Sheng Chen. *See* May 9, 2005 Order.

On May 19, 2005, Dr. Lee filed his Counterclaims and Amended Answer. *See* Counterclaims and Amended Answer of Tsu-Chang Lee. Although he was not permitted to bring cross-claims against 3S and Sesoda in this litigation³, Dr. Lee alleged counterclaims for declaratory relief, misappropriation, unjust enrichment and contractual interference against ViCHIP and ViCHIP Taiwan. *Id.* ViCHIP filed its answer to Dr. Lee's counterclaims on June 8, 2005. *See* ViCHIP Corporation's Answer to Counterclaims of Tsu-Chang Lee. ViCHIP Taiwan, however, has not appeared in this case because it was never properly served with Dr. Lee's counterclaims.

III. STATEMENT OF UNDISPUTED FACTS

A. The Formation of the Joint Venture and the Creation of ViCHIP

On November 20, 2002, Dr. Lee, ViVoDa Communications, Inc. ("ViVoDa"), and two Taiwanese corporations, Solid State Systems Corporation, Ltd. ("3S") and Sesoda Corporation, Ltd. ("Sesoda"), executed a Joint Venture Agreement. Declaration of Lesley Kothe ("Kothe Decl."), Ex. B (JVA). Pursuant to this agreement, the parties agreed to establish a joint venture company in Taiwan "for the purpose of researching, developing and outsourcing the production and manufacture of MPEG4 Codec IC related products." *Id.* at ¶ 1. The joint venturers created

² Dr. Lee, and his company ViVoDa, have brought claims against 3S and Sesoda in an arbitration proceeding in Taiwan. As the Court may recall, Dr. Lee moved to stay this case until the arbitration concluded. *See* Motion for Stay of Proceedings. Dr. Lee withdrew this motion, which had been fully briefed, before the hearing.

³ Dr. Lee unsuccessfully sought leave to amend to file the following cross-claims: declaration of ownership (against 3S and Sesoda); misappropriation (against 3S); unjust enrichment (against 3S); breach of contract (against 3S and Sesoda); breach of the covenant of good faith and fair dealing (against 3S and Sesoda); breach of fiduciary duty (against 3S and Sesoda); intentional interference with contractual relations and prospective economic advantage (against Hsi-Sheng Chen) and breach of confidence (against Hsi-Sheng Chen).

ViCHIP Corporation Ltd. (“ViCHIP Taiwan”) to implement the objectives of the joint venture. Kothe Decl., Ex. A (Lee Decl.), ¶ 5. Dr. Lee became the “first” general manager of ViCHIP Taiwan as well as a member of its board of directors. Kothe Decl., Ex. B (JVA), ¶ 7.1. In December 2002, ViCHIP Taiwan’s board of directors decided to incorporate a wholly-owned subsidiary in California so that it could hire engineers in the United States. Kothe Decl., Ex. A (Lee Decl.), ¶ 9. ViCHIP Corporation (“ViCHIP”), a California corporation, was incorporated in December 2002 and Dr. Lee became its President, CEO and sole director. *Id.*

B. Dr. Lee Becomes a ViCHIP Consultant

In addition to serving as an officer and director of both ViCHIP and ViCHIP Taiwan, Dr. Lee was also an officer and the Chairman of the board of ViVoDa. Kothe Decl., Ex. G (Lee Amended Answer), ¶¶ 21, 23. On January 10, 2003, Dr. Lee, acting as the CEO of ViCHIP and as the President of ViVoDa, executed a consulting agreement whereby Dr. Lee, a ViVoDa employee, became a ViCHIP consultant. Kothe Decl., Ex. C (Lee Consulting Agreement). Pursuant to this consulting agreement, ViCHIP agreed to pay ViVoDa for Dr. Lee’s performance of the following services: “new video codec chip technology development” and “general business management.” *Id.* at ¶ 2. By signing the consulting agreement, Dr. Lee assigned to ViCHIP his and ViVoDa’s right to all Work Product developed at ViCHIP:

Subject to full payment of the consulting fees due hereunder,
Consultant hereby assigns to Client its entire right, title and interest
in the Work Product including all patents, copy rights, trade secrets
and other proprietary rights in or based on the Work Product.

Kothe Decl., Ex. C (Consulting Agreement), ¶ 8.

C. ViCHIP Engineers Begin Working on the Viper Project

After ViCHIP was incorporated, Dr. Lee began assembling an engineering team that would be responsible for developing the MPEG4 Codec IC and related products contemplated by the joint venture. Dr. Lee gave this project a code name: Viper. Kothe Decl., Ex. D (H.S. Chen 1/26/05 Decl.), ¶ 2; Ex. E (W.L. Chen 1/26/05 Decl.), ¶ 2. In January 2003, ViCHIP hired

1 Dr. Wen-Lung Chen, Dr. Hsi-Sheng Chen, Li-Herng Yao and Yusong Huang⁴ to work on the
2 Viper project.

3 In addition to giving its MPEG4 Codec development project a code name, ViCHIP has
4 numerous security measures in place to protect and prevent the unauthorized disclosure and use
5 of its confidential and proprietary information and trade secrets. Kothe Decl., Ex. G (Lee
6 Amended Answer), ¶¶ 11, 65; Ex. F (Lu Decl.), ¶ 2. ViCHIP required each employee, as a
7 condition of his employment, to sign an Employee Invention Assignment and Confidentiality
8 Agreement. Kothe Decl., Ex. F (Lu Decl.), ¶ 2, Ex. A; Ex. T (Employee Agreements). Dr. Lee,
9 as the CEO of ViCHIP, countersigned each employee's agreement on behalf of ViCHIP. Kothe
10 Decl., Ex. T (Employee Agreements). By signing this agreement, each engineer agreed, among
11 other things, to keep his work on the Viper Project confidential, and to assign to ViCHIP the
12 exclusive right to any invention created during his employment at ViCHIP. *Id.*

13 **D. Dr. Lee Executes the Employee Invention Assignment and Confidentiality**
14 **Agreement**

15 In or around April 2003, Dr. Lee became a ViCHIP employee and, like all ViCHIP
16 employees, executed an Employee Invention Assignment and Confidentiality Agreement. Kothe
17 Decl., Ex. I (Lee 1/11/05 Depo), 11:24-12:13. By signing this agreement, Dr. Lee assigned all
18 inventions to ViCHIP:

19 I agree that all inventions that (i) are developed using equipment
20 supplies, facilities, or trade secrets of the Company; (ii) result from
21 work performed by me for the Company; or (iii) relate to the
22 Company's business or current or anticipated research and
development, will be the sole and exclusive property of the
Company and are hereby *irrevocably assigned by me to the*
Company.

23 Kothe Decl., Ex. H (Employee Agreement), ¶ 3.

24 Dr. Lee also irrevocably assigned his other rights to ViCHIP:

25 In addition the foregoing assignment of Inventions to the Company,
26 I hereby irrevocably transfer and assign to the Company: (i) all
worldwide patents, patent applications, copyrights, mask works,

27
28 ⁴Yosong Huang was hired as a consultant in January, 2003. Kothe Decl., Ex. X (Huang Agreement). He became an employee in June, 2003. Kothe Decl., Ex. T (Employee Agreements).

trade secrets, and other intellectual property rights in any Invention; and (ii) any and all “Moral Rights” (as defined below) that I may have in or with respect to any Invention.

Id. at ¶ 5.

In addition to his assigning his rights to ViCHIP, Dr. Lee also agreed to maintain the confidentiality of ViCHIP’s proprietary information, during his employment and after his termination:

At all times, both during my employment and after its termination, I will keep and hold all such Proprietary Information without the prior written consent of the Company, except as may be necessary to perform my duties as an employee of the Company for the benefit of the Company. Upon termination of my employment with the Company, I will promptly deliver to the Company all documents and materials of any nature pertaining to my work with the Company. I will not take with me any documents or materials he or copies thereof containing any Proprietary Information.

Id. at ¶ 8.

E. Dr. Lee Assigns His Rights to ViCHIP’s Provisional Patent Application to ViCHIP

On June 23, 2003, ViCHIP filed with the PTO a Provisional Patent Application⁵ for Method and Apparatus For Adaptive Multiple-Dimensional Signal Sequences Encoding/Decoding. (“ViCHIP’s Provisional Patent Application”). Kothe Decl., Ex. J (Daybell Decl.), at Ex. A; Ex. K (Jaffer Decl.), ¶ 2. The invention claimed in the Provisional Patent Application is the core video codec technology on which ViCHIP’s MPEG4 Codec IC – the Viper chip – is based. Kothe Decl., Ex. E (W.L. Chen 1/26/05 Decl.), ¶ 5. Pursuant to Dr. Lee’s instructions, the Provisional Patent Application lists the following engineers as inventors: Tsu-Chang Lee, Hsi-Sheng Chen, Wen-Lung Chen, Li-Herng Yao and Yusong Huang. Kothe Decl.,

⁵ Provisional applications provide the means to establish an early effective filing date in a patent application and permit the term “Patent Pending” to be applied in connection with the invention. The filing date of a provisional application is the date on which a written description of the invention, and drawings if necessary, are received in the PTO. The applicant has up to 12 months to file a non-provisional application for patent because a provisional application will become abandoned by operation of law twelve months from its filing date. The claimed subject matter in the later filed non-provisional application is entitled to the benefit of the filing date of the provisional application if it has support in the provisional application. *See* 37 CFR 1.53(c).

1 Ex. J (Daybell Decl.), at Ex. A. Furthermore, before filing the Provisional Patent Application,
2 Dr. Lee sent the engineering team an email congratulating them on their hard work and
3 contributions:

4 Hi,

5 The patent draft is ready, and you guys are the inventors (do you
6 know that?)

7 Anyhow, this is a pretty big patent. You all made contributions to
8 certain portions of the system. This patent would be very important
for the company and we should do it right before we file it.

9 Let's have an inventor patent review meeting at 2:00pm this
afternoon.

10 TC

11 Kothe Decl., Ex. M (Lee 6/13/03 Email).

12 In connection with the Provisional Patent Application, ViCHIP's patent counsel, David
13 Jaffer, sent Dr. Lee an Assignment of U.S. Origin Patent Application form ("Patent Assignment")
14 listing all five inventors. Kothe Decl., Ex. N (Patent Assignment). By signing the Patent
15 Assignment, each inventor assigned to ViCHIP his rights to the invention entitled "Method And
16 Apparatus for Adaptive Multiple-Dimensional Signal Sequences." It is undisputed that all five
17 inventors listed on the Provisional Patent Application, *including Dr. Lee*, signed the Patent
18 Assignment form:

19 Q. So you signed the document, "Assignment of U.S. Origin
20 Patent Application" for the Method and Apparatus for
21 Adaptive Multiple Dimensional Signal Sequence? You
signed this form right here, correct?

22 A. I'm not sure whether exactly this form, but I say I sign a form
similar to this.

23 Q. So you signed a form, an assignment form for the ViChip
24 provisional patent application, correct?

25 A. Yes.

26 Q. When did you sign it?

27 A. That was June 2003. Later part of June 2003 or July. I'm not
28 sure. Around that time, 2003.

1 Q. Okay. Do you know if the other inventors also signed the
2 same form?

3 A. Yes.

4 Kothe Decl., Ex. I (Lee 1/11/05 Depo), 56:13-57:2.

5 By virtue of this assignment, ViCHIP owns the exclusive rights to the technology
6 embedded in the Viper Chip and disclosed in the Provisional Patent Application.

7 **F. ViCHIP Taiwan's Board Decides that Dr. Lee Should Not Have Exclusive**
8 **Control Over ViCHIP**

9 In the spring of 2004, Tim Hu, the Chairman of ViCHIP and ViCHIP Taiwan, learned that
10 Dr. Lee, who was still serving as ViVoDa's chairman, had executed two questionable consulting
11 agreements between ViCHIP and ViVoDa. Kothe Decl, Ex. O (Lee 2/15/06 Depo), 134:9 –
12 135:22; Declaration of Tim Hu ("Hu Decl."), ¶ 5. Mr. Hu also learned that Dr. Lee used
13 ViCHIP's funds to pay for his attendance at a trade show on behalf of ViVoDa. Kothe Decl.,
14 Ex. O (Lee 2/15/06 Depo), 108:3 – 14, 136:3 – 7. Mr. Hu and ViCHIP Taiwan's board
15 determined that Dr. Lee had breached his fiduciary duty to ViCHIP by entering into transactions
16 that benefited ViVoDa to the detriment of ViCHIP, and ultimately decided that Dr. Lee should be
17 removed from his positions with ViCHIP. Hu Decl., ¶ 5. At its May 13, 2004 meeting, the
18 ViCHIP Taiwan board of directors decided to reconstitute ViCHIP's board by replacing Dr. Lee
19 with three new members. Kothe Decl., Ex. A (Lee Decl.), ¶ 19, Ex. N; Hu Decl., ¶ 5. The next
20 day, Mr. Hu, Joey Su, a member of ViCHIP Taiwan's board, and Bill Chien, the supervisor of
21 ViCHIP Taiwan's board, met with Dr. Lee. Kothe Decl., Ex. A (Lee Decl.), ¶ 20; Ex. O (Lee
22 2/15/06 Depo), 139:15-140:4. At this May 14, 2004 meeting, Mr. Hu told Dr. Lee that ViCHIP
23 Taiwan and its shareholders wanted him to step-down from his positions as President, CEO, CFO
24 and the sole director of ViCHIP. Hu Decl., ¶ 6. They offered Dr. Lee a new position as the Vice
25 Chairman of ViCHIP Taiwan. *Id.* While Dr. Lee did not agree with the Board's decision, it is
26 undisputed that, as of May 14, 2004, Dr. Lee was aware of ViCHIP Taiwan's intent to remove
27 him from his positions at ViCHIP. Kothe Decl., Ex. O (Lee 2/15/06 Depo), 138:14-141:16; Ex.
28 A (Lee Decl.), ¶¶ 19, 20.

1 **G. After Dr. Lee is Asked to Step Down from his Positions at ViCHIP, Dr. Lee**
 2 **Unilaterally Decides to Partition ViCHIP's Patent**

3 In late May, after the May 14, 2004 meeting during which he was asked to step down
 4 from his positions at ViCHIP, Dr. Lee decided to split ViCHIP's patent application for the
 5 MPEG4 Codec into two parts.⁶ Kothe Decl., Ex. A (Lee Decl.), ¶ 27. On or about June 1 or 2,
 6 2004, Dr. Lee called Dr. Wen-Lung Chen, ViCHIP's former director of engineering and one of
 7 the inventors listed on ViCHIP's Provisional Patent Application, and told him about his plan to
 8 partition the patent application into two parts: an algorithm portion and an architecture design
 9 portion. Kothe Decl., Ex. I (Lee 1/11/05 Depo), 64:19-65:20; Ex. P (W.L. Chen 10/04 Decl.),
 10 ¶ 5. In particular, Dr. Lee wanted to file a utility patent solely in his own name for the algorithm
 11 portion of the invention. Kothe Decl., Ex. P (W.L. Chen 10/04 Decl.), ¶ 5. Dr. Wen-Lung Chen
 12 objected and informed Dr. Lee that he was *not* the sole inventor of the algorithm.⁷ *Id.* at ¶ 6.
 13 Furthermore, Dr. Wen-Lung Chen understood that, pursuant to the Invention Assignment and
 14 Confidentiality Agreement, the entire patent belongs to ViCHIP. *Id.* at ¶ 3. Dr. Wen-Lung Chen
 15 called Tim Hu to inform him of this situation. Hu Decl., ¶ 7; Kothe Decl., Ex. P (W.L. Chen
 16 10/04 Decl.), ¶ 7.

17 **H. The Board of Directors of ViCHIP Taiwan Removed Dr. Lee From His**
 18 **Positions at ViCHIP and Terminated His Employment**

19 After learning from Dr. Wen-Lung Chen about Dr. Lee's plan to file a portion of the

20 _____
 21 ⁶ There is no evidence that Dr. Lee decided to split ViCHIP's patent application into multiple
 22 parts *before* he was asked to step-down from his roles at ViCHIP. To the contrary, the evidence
 23 suggests that Dr. Lee made the decision to partition the patent application after being asked to
 24 resign at the May 14, 2004 meeting. Dr. Lee has testified that he does not know of any
 documents expressing his intent to partition ViCHIP's Provisional Patent Application that pre-
 date the May 14, 2004 meeting. Kothe Decl., Ex. O (Lee 2/15/06 Depo), 144:7-15.

25 ⁷ At his deposition, Dr. Lee has admitted that the algorithm that he claims to have invented prior
 26 to his work at ViCHIP was incorporated within the MPEG4 codec developed by the ViCHIP
 27 engineers and then incorporated within the Provisional Patent Application that he assigned to
 28 ViCHIP. Kothe Decl., Ex. O (Lee 2/15/06 Depo), 82:4-25; 88:1-89:6. Based on Dr. Lee's
 execution of the Patent Assignment form, there is no dispute that Dr. Lee assigned his rights to
 the inventions contained in the Provisional Patent Application – including any inventive
contributions he made to the algorithm portion – to ViCHIP.

1 patent in his own name, and from Ms. Lu about Dr. Lee's removal of the executed copy of his
 2 Employee Invention Assignment and Confidentiality Agreement and the Patent Assignment form,
 3 the ViCHIP Taiwan board decided to terminate Dr. Lee immediately. Hu Decl., ¶ 9. On June 3,
 4 2004, Mr. Hu sent Dr. Lee an email in which he informed Dr. Lee that he was "implementing the
 5 board's decision to reorganize ViCHIP USA" and asked Dr. Lee not to "make any legal decision
 6 on behalf of ViCHIP USA." Hu Decl., ¶ 8, Ex. A. On June 4, 2004, ViCHIP Taiwan, as the sole
 7 shareholder of ViCHIP, resolved to remove Dr. Lee from his position as ViCHIP's sole director
 8 and replace Dr. Lee with three new directors. *Id.* at ¶ 9. ViCHIP's new board then resolved to
 9 remove Dr. Lee from his positions as President, CEO, Secretary, CFO and registered agent of
 10 ViCHIP. *Id.* ViCHIP also terminated Dr. Lee's employment. *Id.* On June 4, 2004, Mr. Hu sent
 11 two letters via facsimile to Dr. Lee at ViCHIP's San Jose office informing him of his removal
 12 from his positions at ViCHIP. *Id.* at Ex. B and C.

13 **I. The Day Before His Termination, Dr. Lee Hijacked ViCHIP's Intellectual**
 14 **Property and Deleted ViCHIP's Computer Files**

15 On June 3, 2004, the day before his termination, Dr. Lee stole all the files relating to
 16 ViCHIP's Provisional Patent Application. Kothe Decl., Ex. I (Lee 1/11/05 Depo), 49:14-50:21;
 17 Ex. F (Lu Decl.), ¶ 6. Dr. Lee has admitted that he removed from ViCHIP's offices the hard copy
 18 of ViCHIP's Provisional Patent Application and all related files, which included an executed
 19 copy of the Patent Assignment form. Kothe Decl., Ex. I (Lee 1/11/05 Depo), 43:18-21, 49:6-13.
 20 Dr. Lee also has admitted that he went to the law offices of Pillsbury Winthrop and asked
 21 ViCHIP's patent counsel, David Jaffer, to give him all the files relating to ViCHIP's Provisional
 22 Patent Application, including the original executed Patent Assignment Form. *Id.* at 57:24-58:4.
 23 Mr. Jaffer, who had worked with Dr. Lee to prepare and file the Provisional Patent Application
 24 and was in the process of preparing the utility patent application *on behalf of ViCHIP*, gave all of
 25 ViCHIP's patent files to Dr. Lee. Kothe Decl., Ex. G (Lee Amended Answer), ¶ 46; Ex. K (Jaffer
 26 Decl.), ¶ 3.

27 In addition to taking ViCHIP's patent files, Dr. Lee has admitted that he deleted electronic
 28 files relating to the Viper Project from ViCHIP's computer system. Kothe Decl., Ex. I (Lee

1 1/11/05 Depo), 50:13-21. On June 3, 2004, the night before his termination, Dr. Lee accessed
 2 ViCHIP's file server and deleted the contents of the computer files that he had generated as a
 3 ViCHIP employee. *Id.* He also deleted the contents of his ViCHIP-issued laptop computer.
 4 Kothe Decl., Ex. G (Lee Amended Answer), ¶¶ 38, 44; Ex. S (H.S. Chen 10/04 Decl.), ¶ 3. Dr.
 5 Lee has also admitted that he removed the executed copy of his Invention Assignment and
 6 Confidentiality Agreement from his personnel file when he left the company. Kothe Decl., Ex. I
 7 (Lee 1/11/05 Depo), 14:8-10; Ex. G (Lee Amended Answer), ¶ 16.

8 After his termination on June 4, 2004, Dr. Lee refused to return to ViCHIP its patent files,
 9 including the Provisional Patent Application, and the other documents related to the Viper Project
 10 that he retained. Dr. Lee did not return these materials until the Court ordered him to do so in its
 11 November 10, 2004 Order granting ViCHIP's motion for a temporary restraining order.

12 **J. After Taking His Employee Invention Assignment and Confidentiality**
 13 **Agreement and the Patent Assignment Form, Dr. Lee Destroyed Both**
 14 **Agreements in Which He Assigned to ViCHIP His Rights to Inventions and**
Intellectual Property

15 Dr. Lee did not just take the executed copies of two of his assignment agreements with
 16 ViCHIP. He destroyed them. Dr. Lee ripped up the original executed copy of his Invention
 17 Assignment and Confidentiality Agreement. Kothe Decl., Ex. I (Lee 1/11/05 Depo), 11:24-12:4,
 18 20:16-21. Dr. Lee also ripped up the original and ViCHIP's copy of the Patent Assignment form,
 19 which had been executed by himself and four other ViCHIP engineers:

20 Q. Where is the executed copy of this [Patent Assignment]
 21 form?

22 A. You mean now?

23 Q. Yes.

24 A. It no longer exists.

25 Q. What happened to it?

26 A. **I tore it up.**

27 Q. When did you tear it up?

28 A. That was June 1st or 2nd of 2004. I'm not sure exact date,
 but it's -- it's before June 3rd. That week, early -- either

Monday, Wednesday, Tuesday during that week, early that week.

Q. Were there any other copies of this document?

A. I don't know.

Q. Where was the document that you tore up?

A. Where?

Q. Where did you get the --

A. Where did I get this --

Q. -- the form?

A. -- the assignment form?

Q. Yes.

A. From Pillsbury.

Q. So the executed assignment form for the provisional patent application was kept at Pillsbury?

A. Yes, correct. Was, yes.

Q. And when you retrieved the files from Pillsbury, you destroyed this document?

A. **Yes, I tore it up.**

Q. Did you destroy any other documents?

A. This one, and there was a copy of -- the original was in Pillsbury. There was a copy in the -- the ViChip's folder. The file folder at that time was in my possession to do the preparation work. He has a copy. It's not original one. **And both of them I tore it up.**

Q. So you destroyed the copy at ViChip?

A. And the original.

Q. Then you retrieved the files from Pillsbury and destroyed the original assignment form?

A. Yes.

Id., 57:3-58:16 (emphasis added).

There is no dispute that Dr. Lee destroyed both agreements in which he assigned to

ViCHIP his rights to the inventions disclosed in the Provisional Patent Application.

K. After Stealing ViCHIP's Then-Confidential Provisional Patent Application, Dr. Lee Used it to File Two Utility Patent Applications In His Own Name

On June 14, 2004, Dr. Lee filed two utility patent applications: US 2004/025814 ("Memory and Array Processor Structure for Multiple-dimensional Signal Processing"); and US 2005/0013369 ("Method and Apparatus for Adaptive Multiple-dimensional Signal Sequences for Encoding/Decoding"). Kothe Decl., Ex. I (Lee 1/11/05 Depo), 30:13-31:23; Ex. R (Blanch Decl.), at Exs. 3, 4. Both of Dr. Lee's utility applications, which list Dr. Lee as the sole inventor, claim priority to ViCHIP's Provisional Patent Application. Kothe Decl., Ex. G (Lee Amended Answer), ¶ 66; Ex. I (Lee 1/11/05 Depo), 74:15-76:16. Dr. Lee has admitted that his utility applications subsume all of the claims contained in ViCHIP's Provisional Patent Application. *Id.* In addition to the patent applications that he filed in the United States, on June 17, 2004, Dr. Lee filed for foreign patent rights under the Patent Cooperation Treaty, and in July 2004 he filed a Taiwanese patent application for the same invention because Taiwan is not a signatory to the PCT. Kothe Decl., Ex. A (Lee Decl.), ¶¶ 30, 31.

L. Dr. Lee Has Jeopardized ViCHIP's Ability to Protect Its Intellectual Property and to Prosecute Its Patents

On June 23, 2004, ViCHIP filed its utility patent application (US 2005/0111548 entitled "Method and Apparatus for Adaptive Multiple-dimensional Signal Sequences Encoding/Decoding"), which also claims priority to its Provisional Patent Application. Kothe Decl., Ex. Q (ViCHIP Depo), 42:16-43:5; 47:7-10. Like its Provisional Patent Application, ViCHIP's utility application lists all five ViCHIP engineers, including Dr. Lee, as inventors. Additionally, ViCHIP also filed for foreign patent rights under the PCT and a patent application for the same inventions in Taiwan. Kothe Decl., Ex. U (ViCHIP Answer), ¶ 48.

By misappropriating ViCHIP's intellectual property and filing utility patents in his own name, Dr. Lee has put ViCHIP's ability to protect its own intellectual property at risk. ViCHIP cannot obtain patent protection for its Viper Chip technology because Dr. Lee has filed patent applications (in the United States and abroad) that compete with ViCHIP's. Hu Decl., ¶ 11. Until

1 the PTO sorts out these competing applications, ViCHIP cannot properly prosecute its patents.
 2 *Id.* This process in the PTO will take time, and this delay – a direct result of Dr. Lee’s competing
 3 patent applications – could devastate a start-up company trying to remain competitive in the
 4 integrated circuit design industry. *Id.* Without an ability to patent its cutting edge technology,
 5 the entire Viper Project is at risk. *Id.* ViCHIP has been unable to secure funding from any new
 6 investors because Dr. Lee’s actions have encumbered ViCHIP’s intellectual property rights. *Id.*

7 **IV. SUMMARY JUDGMENT LEGAL STANDARD**

8 Summary judgment is appropriate when there is no genuine issue as to material facts and
 9 the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56. Material facts are
 10 those that might affect the outcome of the case. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242,
 11 247-48 (1986). A dispute as to a material fact is “genuine” if there is sufficient evidence for a
 12 reasonable jury to return a verdict for the nonmoving party. *Id.*

13 A party seeking summary judgment bears the initial burden of informing the court of the
 14 basis for its motion, and of identifying those portions of the pleadings and discovery responses
 15 that demonstrate the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett*, 477
 16 U.S. 317, 323 (1986). Where the moving party will have the burden of proof at trial, it must
 17 affirmatively demonstrate that no reasonable trier of fact could find other than for the moving
 18 party. On an issue where the nonmoving party will bear the burden of proof at trial, the moving
 19 party can prevail merely by pointing out to the district court that there is an absence of evidence
 20 to support the nonmoving party’s case. *Id.* If the moving party meets its initial burden, the
 21 opposing party must then set forth specific facts showing that there is some genuine issue for trial
 22 in order to defeat the motion. *See* Fed. R. Civ. P. 56(e); *Anderson*, 477 U.S. at 250.

23 “To show the existence of a ‘genuine’ issue, ... [a plaintiff] must produce at least some
 24 significant probative evidence tending to support the complaint.” *Smolen v. Deloitte, Haskins &*
 25 *Sells*, 921 F.2d 959, 963 (9th Cir. 1990) (quotations omitted). The court must view the evidence
 26 in the light most favorable to the non-moving party. *United States v. City of Tacoma*, 332 F.3d
 27 574, 578 (9th Cir. 2003). The court must not weigh the evidence or determine the truth of the
 28 matter, but only determine whether there is a genuine issue for trial. *Balint v. Carson City*, 180

1 F.3d 1047, 1054 (9th Cir. 1999). If the nonmoving party fails to show that there is a genuine
 2 issue for trial, “the moving party is entitled to judgment as a matter of law.” *Celotex*, 477 U.S. at
 3 323. Regardless of whether plaintiff or defendant is the moving party, each party must “establish
 4 the existence of an element essential to [its] case, and on which [it] will bear the burden of proof
 5 at trial.” *Id.* at 322.

6 **V. ViCHIP IS ENTITLED TO SUMMARY JUDGMENT OF DR. LEE’S**
 7 **COUNTERCLAIMS**

8 Dr. Lee’s counterclaims against ViCHIP are predicated on Dr. Lee’s assertion that he is
 9 the sole inventor and owner of the intellectual property embodied in ViCHIP’s Provisional Patent
 10 Application and in any subsequent utility patent application that claims priority to it.
 11 Unfortunately for Dr. Lee, saying it does not make it so, nor does it create a genuine issue of
 12 material fact given the undisputed evidence. ViCHIP, not Dr. Lee, owns the inventions contained
 13 in the Provisional Patent Application because all five inventors of the Viper Chip technology,
 14 including Dr. Lee, *assigned to ViCHIP* their rights to this intellectual property. The analysis of
 15 Dr. Lee’s counterclaims starts and stops with the undisputed fact that Dr. Lee assigned to ViCHIP
 16 his rights to the Provisional Patent Application. ViCHIP is entitled to summary judgment of each
 17 of Dr. Lee’s counterclaims because Dr. Lee cannot, as matter of law, present evidence to establish
 18 the elements of each cause of action.

19 **A. Dr. Lee Cannot Sustain His Misappropriation Claim**

20 The tort of common law misappropriation requires three elements: (1) the plaintiff has
 21 invested substantial time and money in development of its property; (2) the defendant has
 22 appropriated the property at little or no cost; and (3) the plaintiff has been injured by the
 23 defendant’s conduct. *See Self Directed Placement Corp. v. Control Data Corp.*, 908 F.2d 462,
 24 467 (9th Cir. 1990) (*citing Balboa Ins. Co. v. Trans Global Equities*, 218 Cal. App. 3d 1327,
 25 1342 (1990)). Dr. Lee cannot sustain his common law misappropriation claim because ViCHIP,
 26 not Dr. Lee, owns the intellectual property at issue. Stated another way, ViCHIP cannot
 27 misappropriate its own intellectual property. It is undisputed that Dr. Lee signed three separate
 28 agreements in which he assigned to ViCHIP his rights to the intellectual property developed at

ViCHIP and contained in ViCHIP's Provisional Patent Application. Kothe Decl., Ex. C (Lee Consulting Agreement); Ex. I (Lee 1/11/05 Depo), 11:24-12:13; 56:13-57:2. Dr. Lee's references to his pre-existing invention are a *non sequitur*. Dr. Lee unequivocally assigned to ViCHIP his rights to the inventions claimed ViCHIP's Provisional Patent Application, regardless of when this technology was invented.

B. Dr. Lee Cannot Support His Unjust Enrichment Counterclaim

To establish a claim for unjust enrichment under California law, Dr. Lee must establish (1) that ViCHIP received a benefit, and (2) that it would be unjust to allow ViCHIP to retain the benefit at the expense of Dr. Lee. *See Westways World Travel v. AMR Corp.*, 182 F. Supp. 2d 952, 964 (C.D. Cal. 2001) (*citing Lectrodryer v. Seoul Bank*, 77 Cal. App. 4th 723, 726 (2000); *see also Sebastian Int'l, Inc. v. Russolillo*, 186 F. Supp. 2d 1055, 1074 (C.D. Cal. 2001) ("In order to make out a claim for unjust enrichment in California, plaintiff must show that defendant received unjust benefit at the expense of the plaintiff.")). Summary judgment of Dr. Lee's unjust enrichment claim is proper because there is no evidence that ViCHIP improperly obtained a benefit at the expense of Dr. Lee. To the contrary, it is undisputed that Dr. Lee assigned to ViCHIP his rights to any invention, including the Viper Chip, that he worked on at ViCHIP, both as a consultant and as an employee. Kothe Decl., Ex. C (Consulting Agreement), ¶ 8; Ex. I (Lee 1/11/05 Depo), 11:24-12:13; 56:13-57:2. There is no evidence or viable legal argument that Dr. Lee's execution of his Consulting Agreement, his Employee Invention Assignment Agreement or the Patent Assignment form was improper. There is no evidence that these assignment agreements are unenforceable. Furthermore, it is undisputed that ViCHIP compensated Dr. Lee for the work he performed at ViCHIP, both as a consultant and as an employee. Kothe Decl., Ex. C (Lee Consulting Agreement) ¶ 3; Ex. O (Lee 2/15/06 Depo), 70:8-15. Without evidence that ViCHIP *unjustly* benefited from the work Dr. Lee performed as a ViCHIP consultant or employee, summary judgment of Dr. Lee's unjust enrichment claim is proper.

C. **As a Matter of Law, Dr. Lee Cannot Establish His Claims for Intentional Interference With Contractual Relations and Prospective Economic Advantage**

The core of intentional interference business torts is interference with an economic relationship by a third party *stranger* to that relationship. See *Marin Tug & Barge, Inc. v. Westport Petroleum, Inc.*, 271 F.3d 825, 832 (9th Cir. 2001); *Travelers Casualty & Surety Co. of Amer. v. Amoroso*, 2004 WL 1918890 (N.D. Cal. Aug. 24, 2004), *3; *Applied Equipment Corp. v. Litton Saudi Arabia Ltd.*, 7 Cal. 4th 503, 514 (1991) (tortious interference claims designed for “protecting the expectations of contracting parties against frustrations by *outsiders* who have no legitimate social or economic interest in the contractual relationship”). “The threshold test for determining whether a defendant is not a stranger to an economic relationship, and thus cannot be liable for tortious interference, is whether such defendant has a direct interest or involvement in that relationship.” *National Rural Telecommunications Cooperative v. DirectTV, Inc.*, 319 F. Supp 2d 1059, 1070 (C.D. Cal. 2003). Dr. Lee’s tortious interference claims against ViCHIP fail as a matter of law because ViCHIP is not a third-party stranger to the Joint Venture Agreement, the contract with which ViCHIP allegedly interfered. Far from being an “outsider,” ViCHIP’s involvement in the Joint Venture Agreement could not be more direct; ViCHIP and its corporate parent, ViCHIP Taiwan, are the companies *created by Dr. Lee* and his joint venture partners to implement the purpose of the Joint Venture Agreement.

Dr. Lee’s claims in the pending arbitration in Taiwan, which concerns the joint venture parties’ rights and obligations under the JVA, demonstrate ViCHIP’s direct involvement in the relationship between ViCHIP and its joint venture partners, 3S and Sesoda:

As reflected in the Application for Arbitration, the primary issue in dispute in the pending arbitration is whether Solid State System Corp., Ltd. and SESODA Corporation, Ltd. wrongfully and without cause removed [Dr. Lee] from his positions as an officer and director of ViCHIP Corporation and as an officer of ViCHIP Taiwan or, in other words, whether Tsu-Chang Lee breached any duties to ViCHIP Corporation or ViCHIP Taiwan, thereby justifying his removal as an officer and/or director of those companies.

Kothe Decl., Ex. V (Wang Decl.), ¶ 3.

Dr. Lee is currently litigating the issue of the propriety of his removal *from ViCHIP*

1 against 3S and Sesoda in the Taiwan arbitration. Dr. Lee's attempt to bring a claim in the United
 2 States *against ViCHIP* for causing 3S and Sesoda to breach the JVA is improper as a matter of
 3 law given ViCHIP's relationship to the joint venture.

4 Given the law's "stranger" requirement, ViCHIP cannot be liable for interfering with the
 5 JVA. ViCHIP is entitled to summary judgment of Dr. Lee's legally invalid contractual
 6 interference claims.

7 **D. The Court Should Declare ViCHIP's Ownership Rights in the Pending Patent**
 8 **Applications; Inventorship Issues Should Be Decided by the PTO**

9 Dr. Lee has asked the Court for a "declaration of ownership of intellectual property
 10 embodied in patent applications" under Cal. Code of Civ. Proc. § 1060. Specifically, Dr. Lee has
 11 asked this Court to declare that:

12 Dr. Lee is the rightful owner and an inventor of (i) the technology
 13 embodied in two U.S. patent applications that he filed and in the
 14 provisional patent application to which the two utility patent
 15 applications claim priority, (ii) technology embodied in related
 16 foreign patent applications filed by Dr. Lee, (iii) the technology
 17 embodied in one or more patent claims of the U.S. utility patent
 18 application filed by ViCHIP California, and (iv), on information
 19 and belief, the technology embodied in one or more patent claims
 20 of related foreign patent applications filed by ViCHIP California.

21 Kothe Decl., Ex. Y (Lee Counterclaims), ¶ 55.

22 Should this Court exercise its discretion to grant a declaration of ownership of the
 23 aforementioned intellectual property⁸, the undisputed facts demonstrate that ViCHIP is the
 24 rightful owner of the Provisional Patent Application as well as any subsequent patent applications
 25 that claim priority to it. Dr. Lee executed three separate agreements in which he assigned to
 26 ViCHIP his rights to the intellectual property developed at ViCHIP. Kothe Decl., Ex. C (Lee
 27 Consulting Agreement) ¶ 8; Ex. I (Lee 1/11/05 Depo), 11:24-12:13; 56:13-57:2. In one of these
 28

⁸ The decision to grant declaratory relief is matter of discretion, even when the court is presented
 with a justicible controversy. *See Display Research Laboratories, Inc. v. Telegen Corp.*, 133
 F.Supp.2d 1170, 1174 (N.D. Cal. 2001); *see also Abbate v. County of Santa Clara*, 91 Cal. App.
 4th 1231-32 (2001) ("Whether a determination is proper in an action for declaratory relief is a
 matter within the trial court's discretion and the court's decision to grant or deny relief will not be
 disturbed on appeal unless it be clearly shown that the discretion was abused.").

1 agreements, the Patent Assignment form, Dr. Lee expressly assigned “the full and exclusive right,
 2 title and interest to the said invention in the United States and in all foreign countries” to ViCHIP.
 3 Kothe Decl., Ex. N (Patent Assignment) at TCL00000269. Based on this valid assignment,
 4 signed by all five inventors of the technology, ViCHIP is the lawful owner of the inventions
 5 contained in the Provisional Patent Application. The fact that Dr. Lee destroyed his assignment
 6 agreements does not change the fact that ViCHIP owns the Viper Chip technology developed by
 7 its engineers as well as any patent applications directed to this technology. Accordingly, ViCHIP
 8 should also be declared the rightful owner of Dr. Lee’s two utility patent applications and his
 9 related foreign filings, all of which claim priority to ViCHIP’s Provisional Patent Application.
 10 The fact that Dr. Lee’s pending patent applications are directed to inventions owned by ViCHIP
 11 is undisputed. Dr. Lee admitted that his utility patent applications subsume the claims contained
 12 in ViCHIP’s Provisional Patent Application. Kothe Decl., Ex. G (Lee Amended Answer), ¶ 66;
 13 Ex. I (Lee 1/11/05 Depo), 74:15-76:16.

14 To the extent that Dr. Lee is seeking a declaration of inventorship, as opposed to
 15 ownership, the Patent & Trademark Office (“PTO”), not the district court, is the preferred forum
 16 for handling inventorship disputes over patent applications. *See Display Research Laboratories,*
 17 *Inc.*, 133 F. Supp. 2d at 1174-75 (dismissing declaratory relief counterclaims because “the PTO’s
 18 established procedure for handling inventorship disputes is a better forum for [counterclaimant] to
 19 bring its claims.”); *Concrete Washout Systems, Inc. v. Minegar Environmental Systems, Inc.*,
 20 2005 WL 1683930, *4 (E.D. Cal. July 12, 2005) (“Because the PTO has not yet had the
 21 opportunity to reach the issues of inventorship disputed in this case, the court determines that it
 22 would be best to decline to exercise jurisdiction over this claim.”). Dr. Lee’s declaratory relief
 23 claim should be adjudicated in ViCHIP’s favor or dismissed.

24 **VI. VICHIP IS ENTITLED TO PARTIAL SUMMARY JUDGMENT OF ITS CLAIMS**
 25 **AGAINST DR. LEE**

26 ViCHIP’s claims against Dr. Lee arise from the fact that Dr. Lee stole, and in some
 27 instances destroyed, ViCHIP’s confidential and proprietary information in violation of his
 28 contractual and fiduciary obligations. Because Dr. Lee has admitted to committing the conduct

that gave rise to ViCHIP's complaint, there are no genuine issues of material fact as to Dr. Lee's liability. ViCHIP is entitled to summary adjudication on the issue of Dr. Lee's liability for the following causes of action: breach of contract, breach of fiduciary duty, violation of the Computer Fraud and Abuse Act and conversion. The only remaining issue for trial on these causes of action is the amount of ViCHIP's damage.

A. No Genuine Issue of Material Fact Exists as to ViCHIP's Claim that Dr. Lee Breached His Employee Invention Assignment and Confidentiality Agreement

To establish a claim for breach of contract, ViCHIP must prove: (1) the existence of a contract; (2) performance of the contract; (3) breach; and (4) damage. *Shanghai Automation Instrument Co., Ltd. v. Kuei*, 194 F. Supp. 2d 995, 1004 (N.D. Cal. 2001). The Employee Invention Assignment and Confidentiality Agreement that Dr. Lee signed (and then stole and destroyed) is a valid and enforceable contract. *See Imi-Tech Corp. v. Gagliani*, 691 F. Supp. 214, 230 (S.D. Cal. 1986) (finding that personal service agreements prohibiting employees from disclosing confidential information obtained while engaged in research and development for the employer were valid and enforceable); *see also Latona v. Aetna U.S. Healthcare Inc.*, 82 F. Supp. 2d 1089, 1096 (C.D. Cal. 1999) (recognizing that employment restrictions that serve to protect a former employer's trade secrets, proprietary information and confidential information are valid in California.). As the plain language of the contract makes clear, Dr. Lee signed the Employee Invention Assignment and Confidentiality Agreement "in consideration of, and as a condition of [his] employment with ViCHIP." Kothe Decl., Ex. H (Employee Agreement), at p. 1.

Dr. Lee's alleged excuse that he did not read the contract before signing it does not invalidate the Employee Invention Assignment and Confidentiality Agreement. As a matter of law, parties are expected to read the terms of any agreement they sign. "It is well established, in the absence of fraud, overreaching, or excusable neglect, that one who signs an instrument may not avoid the impact of its terms on the ground that he failed to read the instrument before signing it." *Randas v. YMCA of Metropolitan Los Angeles*, 17 Cal. App. 4th 158, 163 (1993). There is no evidence of fraud, overreaching or excusable neglect in this case. Moreover, the evidence

shows that Dr. Lee was well aware of the terms of the Employee Invention Assignment and Confidentiality Agreement. In addition to signing his own, he countersigned, on behalf of ViCHIP, the contracts executed by the members of ViCHIP's engineering team. Kothe Decl., Ex. T (Consulting Agreements) (emphasis added).

The Employee Invention Assignment and Confidentiality Agreement expressly prohibits Dr. Lee from removing proprietary information from ViCHIP:

Upon termination of my employment with the Company, I will promptly deliver to the Company all documents and materials of any nature pertaining to my work with the Company. *I will not take with me any documents or materials or copies thereof containing any Proprietary Information.*"

Kothe Decl., Ex. H (Employee Agreement), ¶ 8.

Dr. Lee's breach of this provision is undisputed. Dr. Lee has admitted to:

- taking ViCHIP's patent files (containing ViCHIP's Provisional Patent Application and the original executed copy of the Patent Assignment form) from ViCHIP and ViCHIP's patent counsel;

Kothe Decl., Ex. I, 43:18-21, 49:6-13, 57:24-58:4; Ex. G, ¶ 75.

- taking (and destroying) his Employee Invention Assignment and Confidentiality Agreement;

Kothe Decl., Ex. I, 11:24-12:4, 20:16-21; Ex. G, ¶¶ 16, 66.

- deleting computer files related to his work on the Viper Project.

Kothe Decl., Ex. I, 50:13-21; Ex. G, ¶¶ 38, 44, 66.

There is no dispute that ViCHIP suffered damage as result of Dr. Lee's removal and destruction of ViCHIP's proprietary information. Dr. Lee *agreed* that a breach of his contractual obligations could cause ViCHIP to suffer irreparable harm:

I understand that in the event of a breach or threatened breach of this Agreement by me the Company may suffer irreparable harm and will therefore be entitled to injunctive relief to enforce this Agreement.

Kothe Decl., Ex. H (Employee Agreement), ¶ 14.

Dr. Lee stole ViCHIP's patent files approximately 20 days before ViCHIP had to file its utility patent application on June 23, 2004. As a result of Dr. Lee's breach of his contractual

obligations, ViCHIP had to prepare and file its utility patent application without its patent files, which included the only executed copies of the Patent Assignment form. Kothe Decl., Ex. F (Lu Decl.), ¶ 6 and ¶ 10, at Ex. B. Furthermore, ViCHIP was unable to recover any of the data Dr. Lee deleted from his laptop and much of the information that he deleted from ViCHIP's file server. Kothe Decl., Ex. S (H.S. Chen 10/04 Decl.), ¶ 3. Based on this undisputed evidence, including Dr. Lee's own admissions, the Court should find, as a matter of law, that Dr. Lee breached his Employee Invention Assignment and Confidentiality Agreement.

B. The Undisputed Facts Demonstrate Dr. Lee's Violation of the Computer Fraud and Abuse Act

The Computer Fraud and Abuse Act ("CFAA"), 18 U.S.C. § 1030(a)(5), makes it unlawful to: (1) intentionally access; (2) a protected computer; (3) without authorization; and (4) as a result of such conduct; (5) intentionally, recklessly or otherwise cause; (6) damage. *See* 18 U.S.C. §§ 1030(a)(5)(A)-(B). "Damage" is defined as "any impairment to the integrity or availability of data, a program, a system, or information" (§ 1030(e)(8)) that causes "loss to 1 or more persons during any 1-year period...aggregating at least \$5000 in value." *Id.* at § 1030(a)(5)(B)(i). Dr. Lee's undisputed action – his unauthorized deletion of ViCHIP's computer files – falls squarely within the conduct proscribed by the CFAA.

ViCHIP's file server qualifies as a "protected computer" because it is "used in interstate commerce or communication." 18 U.S.C. § 1030(e)(2)(B). It is undisputed that Dr. Lee accessed ViCHIP's file server on June 3, 2004, the night before he was terminated from ViCHIP, and intentionally deleted files from ViCHIP's server. Dr. Lee has also admitted that he deleted files from his ViCHIP-issued laptop computer. The fact that Dr. Lee, who was at that time an employee with a fiduciary duty of loyalty to ViCHIP, had access to the proprietary information stored on ViCHIP's server does not mean that he was authorized to delete it.

As a matter of law, Dr. Lee's authority to access ViCHIP's server terminated when he decided to destroy the files that were the property of ViCHIP, in violation of the duty of loyalty that agency law imposes on an employee. *See United States v. Galindo*, 871 F.2d 99, 101 (9th Cir. 1989) ("When an agent acts contrary to the interests on the principal, the agency relationship

1 ceases.”); *Shurgard Storage Centers, Inc. v. Safeguard Self Storage, Inc.*, 119 F. Supp. 2d 1121,
 2 1124-25 (W.D. Wash. 2000). In a recent seventh circuit case, *International Airport Centers,*
 3 *L.L.C. v. Citrin*, 2006 WL 548995 (7th Cir. (Ill.), March 8, 2006) , the defendant deleted files that
 4 incriminated himself and other files that were the property of his employer from his work-issued
 5 laptop computer. The Court held that the plaintiff employer stated a claim under the CFAA
 6 because the defendant employee acted without authorization when he deleted data from his
 7 computer. *Id.* at * 3. According to Judge Posner, “Citrin’s breach of his duty of loyalty
 8 terminated his agency relationship (more precisely, terminated any rights he might have claimed
 9 as IAC’s agent – *he could not by unilaterally terminating any duties he owed his principal gain*
 10 *an advantage!*) and with it his authority to access the laptop, because the only basis of his
 11 authority had been that relationship.” (emphasis added) *Id.*

12 On the eve of his termination, Dr. Lee went out of his way to harm ViCHIP by destroying
 13 data that he knew ViCHIP had no duplicates of and deleting every trace of the work that he had
 14 performed for ViCHIP. Kothe Decl., Ex. I (Lee 1/11/05 Depo), 49:6-20. Dr. Lee’s Employee
 15 Invention Assignment and Confidentiality Agreement is explicit that Dr. Lee was not entitled to
 16 retain, let alone destroy, ViCHIP’s proprietary information after his termination. Kothe Decl.,
 17 Ex. H (Employee Agreement), ¶ 3. Yet Dr. Lee kept copies of the data that he deleted from
 18 ViCHIP’s computers and then refused to return these electronic files to ViCHIP after his
 19 termination. Kothe Decl. Ex. I (Lee 1/11/05 Depo), 82:12-24; Ex. F (Lu Decl.), ¶ 6. Until the
 20 Court ordered Dr. Lee to return to ViCHIP all of the documents that he had removed, ViCHIP
 21 was unable to discern exactly what information Dr. Lee had deleted.

22 The harm ViCHIP has suffered as a result of Dr. Lee’s conduct exceeds \$5000. From
 23 2003 through the present, ViCHIP and ViCHIP Taiwan have spent at least 5.6 million U.S.
 24 dollars on the Viper Project (Hu Decl., ¶ 3), and paid Dr. Lee an annual salary of \$165,000 for his
 25 work for the company. Kothe Decl., Ex. O (Lee 2/15/06 Depo), 70:8-15. Dr. Lee has admitted
 26 that he deleted everything that he had been working on at ViCHIP. Kothe Decl., Ex. I (Lee
 27 1/11/05 Depo), 50:13-21; Ex. S (H.S. Chen 10/04 Decl.), ¶ 3. His effort to sabotage ViCHIP’s
 28 work cost the company well over \$5000 in lost work product. Furthermore, ViCHIP incurred

1 expenses assessing the damage to the file server and determining whether the files were
 2 recoverable (some of them were not). Hsi-Sheng Chen spent approximately 10 hours trying to
 3 recover the files deleted by Dr. Lee. Hu Decl., ¶ 10.

4 These expenses fall within the statute's definition of a "loss"⁹ and are therefore sufficient
 5 to constitute "damage" under sections 1030(e)(8) and 1030(g). *See, e.g., United States v.*
 6 *Middleton*, 231 F.3d 1207, 1213 (9th Cir. 2000) (instructing the jury that it could consider costs
 7 that were a "natural and foreseeable result of Defendant's conduct," costs that were "reasonably
 8 necessary" and costs that would "resecure the computer to avoid further damage."); *In re*
 9 *DoubleClick Inc. Privacy Litig.*, 154 F. Supp. 2d 497, 524 (S.D.N.Y. 2001) ("Clearly, any
 10 economic losses plaintiffs bore in securing or remedying their systems in the wake of
 11 DoubleClick's alleged CFAA violations would count towards § 1030(e)(8)(A)'s damage
 12 threshold."). Based on the undisputed facts establishing Dr. Lee violation of the CFAA, ViCHIP
 13 is entitled to summary adjudication of this claim.

14 **C. No Genuine Issue of Material Fact Exists as to ViCHIP's Claim that Dr. Lee**
 15 **Breached His Fiduciary Duty**

16 To prove its breach of fiduciary duty claim, ViCHIP must show: (1) the existence of a
 17 fiduciary duty; (2) breach of the fiduciary duty; and (3) damage proximately caused by the
 18 breach. *See Sonista, Inc. v. Hsieh*, 2005 WL 3113083, * 1 (N.D. Cal. Nov. 21, 2005) (*citing*
 19 *Stanley v. Richmond*, 35 Cal. App. 4th 1070, 1086 (1995)). It is undisputed that Dr. Lee owed
 20 ViCHIP fiduciary obligations as an officer, director and an employee. Kothe Decl., Ex. G (Lee
 21 Amended Answer), ¶ 19, 20. As discussed in sections A and B above, Dr. Lee breached his
 22 fiduciary obligation when he removed ViCHIP's patent files, deleted ViCHIP's confidential and
 23 proprietary information from the ViCHIP file server and destroyed the executed copy of both his
 24 Employee Invention Assignment and Confidentiality Agreement and the Patent Assignment form.
 25 There is no dispute that Dr. Lee's malfeasance damaged ViCHIP and its ability to seek patent

26 _____
 27 ⁹ The statute defines "loss" as "any reasonable cost to any victim, including the cost of responding
 28 to an offense, conducting a damage assessment, and restoring the data, program, system, or
 information to its condition prior to the offense, and any revenue lost, cost incurred, or other
 consequential damages incurred because of interruption of service." § 1030(e)(11).

1 protection for its technology. ViCHIP is entitled to summary adjudication of its breach of
 2 fiduciary duty claim against Dr. Lee.

3 **D. No Genuine Issue of Material Fact Exists as to ViCHIP's Conversion Claim**

4 To establish the tort of conversion under California law, a plaintiff must show ownership
 5 or right to possession of property, wrongful disposition of the property and damages. *See Kremen*
 6 *v. Online Classifieds, Inc.*, 337 F.3d 1024, 1029 (9th Cir. 2002). ViCHIP can establish each
 7 element of this cause of action based on Dr. Lee's admission that he took ViCHIP's Provisional
 8 Patent Application and used it to file his own utility patents applications, which claimed priority
 9 to the ViCHIP provisional. As discussed in sections IV.A and IV.D above, the undisputed facts
 10 relating to Dr. Lee's multiple assignments of his intellectual property rights to ViCHIP
 11 demonstrate that ViCHIP is the rightful owner of the June 23, 2003 Provisional Patent
 12 Application. There is no dispute that Dr. Lee used ViCHIP's property, the Provisional Patent
 13 Application and the related patent files, to file utility patents in his own name. Kothe Decl., Ex.
 14 G (Lee Amended Answer), ¶ 66; Ex. I (Lee 1/11/05 Depo), 74:15-76:16. As a result, ViCHIP's
 15 rights to its intellectual property, which were once free and clear, have been encumbered by the
 16 competing patent applications filed by Dr. Lee. ViCHIP is entitled to summary adjudication of its
 17 conversion claim against Dr. Lee.

18 **VII. CONCLUSION**

19 For the foregoing reasons ViCHIP respectfully requests that the Court grant summary
 20 judgment of Dr. Lee's counterclaims against ViCHIP, and summary adjudication on the issue of
 21 Dr. Lee's liability for ViCHIP's claims for breach of contract, breach of fiduciary duty, violation
 22 of the Computer Fraud and Abuse Act and conversion.

23
 24 DATED: March 22, 2006

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25
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 28 Attorneys for ViCHIP Corporation